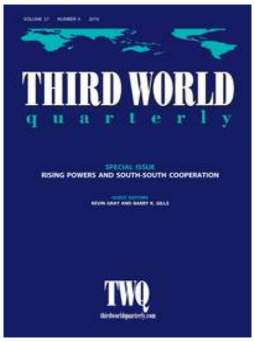

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BRICS, developing countries and global governance

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ABSTRACT
This article analyses the implications and consequences of the rise of BRICS for the developing world and for global governance. In doing so, it examines BRICS' increasing importance among developing countries and their growing significance in the world economy, situated in historical perspective, and considers the factors underlying the evolution of the group as an economic and political formation. This is followed by an analysis of the possible economic impact of future growth in BRICS on other developing countries, which could be complementary or competitive, positive or negative. In conclusion it discusses the potential influence of BRICS, extending beyond economics to politics, in the wider global context, with reference to international institutions and cooperation among developing countries.

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Brazil, Russia, India, China and South Africa – BRICS – a group of countries diverse in terms of economics and geography, constitute an infant formation that has moved centre-stage in the contemporary world in a rather short span of time. Their economic importance is obviously attributable to size. In 2010, taken together, these five countries accounted for 43% of world population and 18% of world income.[1] However, their political significance stems not only from economic size but also from collective voice in a world where the balance of power is changing. The acronym began life in 2004, coined by Jim O'Neill in a Goldman Sachs study.[2] But this was no more than an exercise in compound growth rates for a cluster of countries experiencing rapid economic growth in the 1990s which gathered momentum in the boom of the early 2000s.[3] It evolved into a political reality in 2009 with the first annual summit of the BRIC (as it then was) nations. South Africa was a late invitee and entrant in 2011. This evolution was an iterative process. It started in 2003, with a plurilateral group of three countries – India, Brazil and South Africa – one from each continent of the developing world, named IBSA. The next step followed in 2009, to include China in BASIC, an *ad hoc* coalition that was shaped by an event, the Summit on Climate Change at Copenhagen.

The object of this article is to analyse the potential implications and possible consequences of BRICS for countries in the developing world and for global governance. Its focus is on the big picture in the international context. It is not concerned with the economics or politics of development within these countries. Given the objective, for analytical purposes,

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Table 1. BRICS and developing countries in the world economy and world population, 1820–1950 (%).

	1820	1870	1913	1950
Share in world GDP in 1990 (Geary-Khamis PPP) international dollars				
Brazil	0.4	0.6	0.7	1.7
China	33.0	17.1	8.8	4.6
India	16.1	12.2	7.5	4.2
South Africa	0.1	0.2	0.4	0.6
Total above BRICS				
	49.5	30.1	17.4	11.1
Developing countries	63.1	42.6	29.6	27.1
World	100.0	100.0	100.0	100.0
Share in world population				
Brazil	0.4	0.8	1.3	2.1
China	36.6	28.1	24.4	21.6
India	20.1	19.8	16.9	14.2
South Africa	0.1	0.2	0.3	0.5
Total above BRICS	57.2	48.9	43.0	38.5
Developing countries	74.4	67.8	63.2	67.0
World	100.0	100.0	100.0	100.0

Note: The percentages have been calculated.
Source: Maddison, *The World Economy*; and Nayyar, *Catch Up*.

this essay defines BRICS as Brazil, India, China and South Africa excluding Russia, although the latter is part of the political formation, partly because it is at a much higher level of income and a more advanced stage of development,[4] but more importantly because it is a former superpower and an industrialised economy.

The structure of the discussion is as follows. The first section situates BRICS in the wider context of developing countries in the world economy in longer-term historical perspective. Section two examines the growing economic significance of BRICS in a world where change has gathered momentum since 1980. The third section considers the factors underlying the evolution of BRICS as an economic and political formation. Section four analyses the possible economic impact of future growth in the BRICS on other developing countries. The final section discusses the potential influence of BRICS, beyond economics to politics, in the global context with reference to the possibilities of cooperation among developing countries.

Historical perspective

The world economy has witnessed a significant transformation during the second half of the 20th century and the first decade of the twenty-first century.[5] This is clearly visible in changes in the share of developing countries in world output but much less so in levels of per capita income relative to industrialised countries.[6] In terms of Maddison PPP statistics, the share of developing countries in world output stopped its continuous decline, which started in 1820, circa 1960, when it was about one-quarter, to increase rapidly after 1980, so that it was almost one-half by 2008, while the divergence in GDP per capita also came to a stop in 1980 and was followed by a modest convergence thereafter, so that, as a proportion of GDP per capita in industrialised countries, it was about one-fifth in 2008.[7] In current prices at market exchange rates, between 1970 and 2010, the share of developing countries in world GDP doubled from one-sixth to one-third, while their GDP per capita as a proportion of that in industrialised countries recorded a modest increase from one-fourteenth to one-tenth.[8]

Table 2. Shares in PPP GDP of the world and of developing countries 1980–2008(%).

	1980	1990	2000	2008
World GDP in 1990 (Geary-Khamis PPP) international dollars				
Brazil	3.2	2.7	2.7	2.5
India	3.2	4	5.2	6.7
China	5.2	7.8	11.8	17.5
South Africa	0.6	0.5	0.5	0.5
Total above BRICS	12.2	15.2	20.1	27.1
Next-14	20.7	23.5	31.4	38.3
Developing countries	31.7	34.9	41.7	49.4
World	100	100	100	100
Developing World GDP in 1990 (Geary-Khamis PPP) international dollars				
Brazil	10.1	7.9	6.4	5
India	10	11.6	12.4	13.6
China	16.4	22.4	28.2	35.4
South Africa	2	1.6	1.1	0.9
Total above BRICS	38.5	43.5	48.1	54.9
Next-14	65.2	67.5	75.2	77.7
Developing world	100	100	100	100

Source: Nayyar, *Catch Up*; and Maddison online database, http://www.ggdc.net.MADDISON/oriindex.htm.

Differences in GDP growth rates underlie the rising share of developing countries and the falling share of industrialised countries in world GDP. Given the decline in population growth rates in the developing world, these differences underlie the end of divergence in per capita incomes around 1980 followed by the beginnings of a very modest convergence that is discernible after 1990 and more visible in the 2000s.[9]

The engagement of developing countries with the world economy witnessed a decline during the period from 1950 to 1980, particularly when compared with the past, but revived around1980 and grew rapidly thereafter.[10] However, this deeper engagement was a matter of choice, in sharp contrast with the compulsion of the past. These countries' share in world merchandise trade, exports and imports more than doubled from less than 20% in 1970 to more than 40% in 2010. Similarly their share of international trade in services registered a substantial increase to reveal their comparative advantage in exports of services. Beginning in the 1990s their share in stocks and flows of inward, as also outward, foreign direct investment also increased at the expense of industrialised countries, although they were more important as countries-of-destination than as countries-of-origin.

There was a significant catch-up in industrialisation for the developing world as a whole beginning around 1950 that gathered momentum in the early 1970s. Structural changes in the composition of output and employment, which led to a decline in the share of agriculture with an increase in the share of industry and services, were important factors underlying the process. There was a dramatic transformation in just four decades.[11] Between 1970 and 2010 the share of developing countries in world industrial production jumped from 8% to 33% in constant prices and from about 12% to more than 40% in current prices. Similarly their share in world exports of manufactures rose from 7% to 40%. Industrialisation also led to pronounced changes in the composition of their trade, as the share of primary commodities and resource-based products fell, while the share of manufactures rose, in both exports and imports.

This impressive performance in the aggregate is characterised by uneven development. The engagement with the world economy and the catch-up in industrialisation were both

uneven between regions. There was a strong concentration in Asia. Latin America stayed roughly where it was. Africa fell further behind. The distribution was also uneven between countries within regions. There was a high degree of concentration among a few: Argentina, Brazil, Chile and Mexico in Latin America; China, India, Indonesia, Malaysia, South Korea, Taiwan, Thailand and Turkey in Asia; and Egypt and South Africa in Africa. In fact, the economic significance of these countries, termed the Next-14, in the developing world was overwhelming in terms of their size, reflected in GDP and population, their engagement with the world economy, reflected in trade, investment and migration, and industrialisation, reflected in manufactured exports and industrial production.[12] BRICS were perhaps the most important subset of countries in the Next-14. There was also enormous diversity within the few, characterised by an unequal distribution, in terms of the same attributes that revealed the concentration among them.

The determinants of such concentration are the size and growth of economies. But it is also embedded in history. The importance of BRICS, particularly China and India, is not new. It goes back centuries.[13] This is borne out by evidence available for the more recent past. Table 1 sets out the share of BRICS in world income and world population for selected benchmark years during the period 1820–1950. It shows that, in 1820, BRICS accounted for 57% of world population and almost 50% of world income. The shares were almost proportional. There was a dramatic change in the next 130 years, which mirrored the rise of the West and the fall of the Rest. In 1950 BRICS accounted for 39% of world population and 19% of world income. The shares became asymmetrical. Much of this transformation was attributable to the decline and fall of China and India. Between 1820 and 1950 the share of the two Asian giants dropped in world income from 49% to 9% and in world population from almost 57% to 36%. This sharp contraction was mirrored in the shares of both BRICS and developing countries. Obviously there were significant differences between two sets of countries within BRICS. For one, China and India had dominant shares, in both income and population, while the shares of Brazil and South Africa were far smaller. For another, the shares of Brazil and South Africa, in both income and population, rose and were symmetrical throughout this period, while the shares of China and India fell rapidly, more in income than in population, and became increasingly asymmetrical over time.

This historical backdrop situates the growing economic significance of BRICS since 1980 in a longer-term perspective. Table 2 presents comparable data on the shares of BRICS, the Next-14 and developing countries in the purchasing power parity (PPP) GDP of the world and the shares of BRICS and the Next-14 in the PPP GDP of developing countries, for 1980, 1990, 2000 and 2008 (the latest year for which Maddison statistics are available). A comparison with Table 1 shows that 1980 was a turning point for BRICS. And the distribution of world PPP GDP witnessed striking changes between 1980 and 2008: the share of BRICS rose from one-eighth to more than one-quarter; the share of the Next-14 rose from about one-fifth to almost two-fifths, while the share of developing countries rose from around one-third to almost one-half. These trends were mirrored in changes in the distribution of developing country PPP GDP between 1980 and 2008: the share of BRICS increased from less than two-fifths to more than one-half, while the share of the Next-14 increased from less than two-thirds to more than three-quarters.

It would seem that the economic importance of BRICS diminished rapidly during 1820–1950 because of the fall of China and India, despite the rise of Brazil, which increased its share in world GDP from 0.4% to 3.2%, and the reasonably good performance of South

Africa. The story was just the opposite during 1980–2008, as the economic importance of BRICS grew rapidly because of the rise of China and India, despite the poor performance of Brazil and South Africa.

It must be said that it is not quite appropriate or correct, even if it is fashionable, to add GDP in terms of PPP across countries, because these estimates are based on an artificial upward adjustment in the price of non-traded goods and services in developing countries, leading to an upward bias in PPP GDP estimates for developing countries. Even so, there are three reasons why this is a worthwhile exercise. First, the Maddison statistics on GDP in 1990 international (Geary-Khamis PPP) dollars are better than the usual PPP estimates that facilitate inter-country comparisons over time. Second, the use of Maddison statistics allows for consistent comparisons with the past, which would not be possible otherwise, because national accounts statistics compiled by the United Nations are available only from 1970. Third, the trends in the distribution of PPP GDP between industrialised and developing countries and within the developing world are similar to trends in the distribution of GDP in current prices at market exchanges, except that, in the former, the share of developing countries is somewhat higher and the fluctuations are smoothed out, as compared with the latter.[14] Nevertheless, the discussion that follows considers changes in the distribution of world output between country groups from data on GDP in current prices and market exchange rates based on national accounts statistics. The story does not turn out to be significantly different.

Changing world

It is clear that the period since 1950 has witnessed a catching up on the part of developing countries with industrialised countries, in terms of their PPP shares in world output and income. This has been associated with a discernible shift in the balance of power in the world economy, which gathered momentum after 1980. The Next-14 led this process of catch-up and accounted for a large part of the aggregates in every dimension. The BRICS were critical as the most important subset of countries in the Next-14. These layers of concentration suggest an implicit hierarchy among subsets of economies: BRICS, the Next-14 and developing countries.[15] Hence, the growing significance of BRICS must be situated in its wider context.

Table 3 presents evidence on the shares of each of the BRICS, the Next-14, developing countries and industrialised countries in world GDP (in current prices at market exchange rates) and world population, for selected benchmark years during the period from 1980 to 2013. It also provides absolute figures for world totals as a point of reference.

Between 1980 and 2013 the share of BRICS in world GDP trebled from 6% to 19%, while their share in world population decreased a little from 41% to 40%. Over the same period the share of the Next-14 in world GDP more than doubled from 12% to 27%, while their share in world population decreased a little from 52% to 51%. Between 1980 and 2013 the share of developing countries in world GDP rose from 22% to 37%, while their share in world population rose from 74% to 81%. In sharp contrast, the share of industrialised countries in world GDP fell from 68% to 57%, while their share in world population fell from 17% to 13%.[16] For BRICS and the Next-14 a slight decline in their share of world population was juxtaposed with a large proportionate jump in their share of world GDP, so that the asymmetry between their respective shares in population and income diminished far more than it did for developing countries as a group.

Table 3. The share of BRICS, the Next-14, developing countries and industrialised countries in world GDP and world population 1980–2013 (%).

	1980	1990	2000	2010	2013
World GDP in current prices at market exchange rates					
Brazil	1.6	1.8	2	3.3	3
India	1.5	1.4	1.4	2.6	2.6
China	2.5	1.8	3.6	9.2	12.5
South Africa	0.7	0.5	0.4	0.6	0.5
Total above BRICS	6.3	5.5	7.4	15.8	18.6
Next-14	12.3	11.9	15.5	24	27.1
Developing countries	21.7	17.5	21.6	32.8	36.9
Industrialised countries	68.4	77.8	76	61.9	57.4
World	100	100	100	100	100
World total (US$ billion)	12,043	22,604	32,858	64,401	74,601
World population					
Brazil	2.7	2.8	2.8	2.8	2.8
India	15.7	16.3	17	17.4	17.5
China	22.1	21.9	20.9	19.7	19.3
South Africa	0.7	0.7	0.7	0.7	0.7
Total above BRICS	41.2	41.7	41.5	40.7	40.4
Next-14	51.6	52.3	52.1	51.3	50.9
Developing countries	74.2	77	79.2	80.7	81.2
Industrialised countries	17.2	15.3	14.2	13.4	13.1
World	100	100	100	100	100
World total					
(billion people)	4.4	5.3	6.1	6.9	7.2

Notes: The Next-14 are Argentina, Brazil, Chile, China, Egypt, India, Indonesia, South Korea, Malaysia, Mexico, South Africa, Taiwan, Thailand and Turkey.

The figures for developing countries and industrialised countries do not add up to the world totals. The residual is attributable to Eastern Europe and the former USSR.

Source: United Nations, UNCTAD Stat (unctad.org/en/Pages/Statitstics/aspx), based on UN National Accounts Statistics and Population Statistics.

It is essential to note that there was a striking concentration in a small number of countries underlying this transformation. This emerges clearly from Table 4, which outlines changes in the shares of each of the BRICS, as also BRICS and the Next-14 as country groups, in GDP and population of the developing world, for the same selected years. Between 1980 and 2013 the share of the Next-14 in GDP of the developing world rose from 57% to 74%, although their share in population of the developing world fell from 70% to 63%. Thus, for the Next-14, the asymmetry between their shares of GDP and population in the developing world was reversed. Between 1980 and 2013 the share of BRICS in the GDP of developing countries rose from 29% to 50%, while their share in the population of developing countries fell from 56% to 50%. Thus, for BRICS, the asymmetry between their shares of GDP and population in the developing world, which was significant in 1980, had vanished by 2013. There was perhaps even greater concentration within BRICS. It is no surprise that China and India taken together accounted for more than 90% of the BRICS population throughout. But, during 1980–2013, the share of China alone in the GDP of BRICS rose from 40% to 67%, although its share in the population of BRICS fell from 54% to 48%, reversing the asymmetry between its shares.

The changes in the significance of any subset of countries in the world over time depend upon their economic performance as compared with the rest of the world. It is obvious that differences in GDP growth rates, in real terms, underlie the changing shares of country groups

Table 4 The share of BRICS and the Next-14 in developing world GDP and developing world population 1980–2013 (%).

	1980	1990	2000	2010	2013
Developing world GDP in current prices at market exchange rates					
Brazil	7.3	10.2	9.1	10.1	8.2
India	7.1	8.3	6.6	8.1	7
China	11.7	10.2	16.8	28.1	33.9
South Africa	3.1	2.8	1.9	1.7	1.3
Total above BRICS	29.2	31.5	34.3	48.1	50.4
Next-14	57	68	71.7	73.2	73.6
Developing world	100	100	100	100	100
Developing world total (US$ billion)	2610	3948	7104	21139	27497
Developing world population					
Brazil	3.7	3.7	3.6	3.5	3.4
India	21.2	21.2	21.5	21.6	21.5
China	29.8	28.5	26.4	24.4	23.8
South Africa	0.9	0.9	0.9	0.9	0.9
Total above BRICS	55.5	54.2	52.4	50.4	49.7
Next-14	69.5	67.9	65.8	63.5	62.8
Developing world	100	100	100	100	100
Developing world total (US$ billion)	3.3	4.1	4.9	5.6	5.8

Notes: The Next-14 are Argentina, Brazil, Chile, China, Egypt, India, Indonesia, South Korea, Malaysia, Mexico, South Africa, Taiwan, Thailand and Turkey.
Source: United Nations, UNCTAD Stat, based on UN National Accounts Statistics and Population Statistics.

in the world economy. It is simple arithmetic that differences in growth rates of GDP and population determine differences in growth rates of GDP per capita, which in turn shape convergence or divergence in per capita incomes between countries.

The unfolding reality about the growing economic significance of these countries and country groups is borne out by evidence on growth rates.[17] During 1981–2013 real GDP growth was 6.3% per annum in BRICS, 5.3% per annum in the Next-14, and 4.8% per annum in developing countries, as compared to 2.4% per annum in industrialised countries and 2.9% per annum in the world. Over the same period real GDP per capita growth was 4.9% per annum in BRICS, 4% per annum in the Next-14, and 3.1% per annum in developing countries, as compared with 1.3% per annum in industrialised countries and 1.5% per annum in the world.

The BRICS growth story is characterised by a dichotomy. During 1981–2013 real GDP growth per annum was 9.5% in China, 6.1% in India, 2.7% in Brazil, and 2.4% in South Africa. Over the same period real GDP per capita growth per annum was 8.6% in China, 4.3% in India, 1.2% in Brazil and 0.6% in South Africa.[18]

The significance of BRICS is also reflected in their growing engagement with the world economy through trade, investment and migration. Between 1980 and 2013 the share of BRICS rose from 3% to 15% of world merchandise trade (both exports and imports), increased from 5% to 8% of inward stocks but decreased from 8% to 4% of outward stocks of foreign direct investment in the world, and jumped from 8% to 25% of total remittances in the world economy. Similarly BRICS were an increasingly important part of the catch-up in industrialisation. Their share in world manufacturing value added jumped from 6% in 1990 to 27% in 2012, while their share in world manufactured exports rose from rose from 6% in 2000 to 20% in 2013. But the distribution of these shares was most unequal between countries within BRICS. Between 1980 and 2013 China's share rose from around one-quarter

to three-quarters of BRICS exports and imports, from less than one-twentieth to about one-half of both inward and outward stocks of BRICS foreign direct investment, and from about one-sixth to more than two-fifths of remittances to BRICS. China's share in BRICS manufacturing value added doubled from two-fifths in 1990 to four-fifths in 2012, while its share in BRICS manufactured exports increased from three-quarters in 2000 to almost nine-tenths in 2013.[19] The concentration was the greatest in merchandise trade, industrial production and manufactured exports.

The evidence presented above, and in Table 4, suggests some obvious and some not so obvious propositions. China was the most important part of the BRICS story. Yet it was not the whole story. There was more to BRICS than China. BRICS were the most important part of the Next-14 tale. But there was far more to the Next-14 than BRICS. The Next-14 were the most important part of the growing significance of developing countries. Yet there was more to the developing world than the Next-14. In sum, the catch-up process was characterised by concentration at each level from the apex to the base: China in BRICS, BRICS in the Next-14, and the Next-14 in developing countries. But there was also a significant dispersion across levels in this hierarchy of country groups.

Evolution of BRICS

The emergence of BRICS as an economic and political formation must be situated in its wider context. The era of change in the world economy gathered momentum from 1980. The catch-up by developing countries, concentrated in the Next-14, even if the focus is often on BRICS, was continuous. It reached a critical threshold in the early 2000s. This was necessary but not quite sufficient. It was the conjuncture that made an enormous difference. The financial crisis that surfaced in the USA in late 2008, and the Great Recession that followed in its aftermath, was the deepest crisis in capitalism since the Great Depression 75 years earlier.[20] This eroded the triumph of capitalism that followed the collapse of communism in 1991 and reinforced the shift in the balance of power somewhat more towards the developing world. The G8 gave way to the G20. And it is no coincidence that BRICS as a formation surfaced in 2009.

The composition of BRICS in terms of countries was shaped by size and geography. Their economic size (potential if not actual income, together with population) and their physical size (in terms of geographical space) explain the inclusion of Brazil, China and India. But geography and location made a difference. This is the reason why it was South Africa, in Africa, rather than Indonesia, in Asia, that was included. The same consideration, reinforced by geopolitics meant that it was Russia, a high-income, former superpower in Europe, that was a constituent of BRICS, rather than Mexico, which was in the Outreach-5 and could also have been a plausible choice.

It should come as no surprise that there is enormous diversity between, and relatively little coherence (at least so far) among, the nations that make up BRICS. Even so, it has surfaced as a strategic alliance of countries, in part as a reflection of the changing balance of economic power in the world, and in part as a countervailing force in a unipolar world that was born after communism collapsed. In this world, which was dominated by the USA, the EU was, in effect, an ally of the sole superpower rather than a countervailing force, which was its original *raison d'être*. The presence of Russia perhaps reflects a strategic effort to strike a balance in a group that has concerns about the overwhelming rise and growing power of

China. It is clear that China is a very important factor underlying the emergence of BRICS. But it also needs to be said that, as a political formation, BRICS is about far more than China.

The problem of coherence among member countries of this formation does loom large, even if Russia is excluded, and the focus is on BRICS as defined in this article. There are concerns about China among Brazil, India and South Africa, all of whom run massive trade deficits with that country. These concerns are accentuated by a pattern of trade in which they export primary commodities to and import manufactured goods from China. Such a near-colonial pattern of trade simply cannot be conducive to industrialisation, let alone to partnerships in development. Of course, there is much that they can learn from each other and there is a potential for economic cooperation among the BRICS. Similarly there is a potential for cooperation with other developing countries that could yield significant mutual benefits. But this promise might not be realised if the BRICS aspire to join the premier league and occupy a seat at the high table, instead of aiming for solidarity with other countries in the developing world.

Implications for development

The impact of rapid economic growth in BRICS on other developing countries could be positive, if complementary, or negative, if competitive and, on balance, positive or negative.[21] It could have a positive impact on other developing countries if it improves terms of trade, provides appropriate technologies and creates new sources of finance for development, whether investment or aid.

It is clear that, from the turn of the century, the positive impact on developing countries has been transmitted through an improvement in their terms of trade.[22] This might have come to an end with the collapse in prices of primary commodities that surfaced in mid-2014.

Rapid economic growth in China and India did boost the demand for primary commodities exported by developing countries and probably was an important factor underlying the boom that began in the early 2000s. The reasons are simple enough. Both China and India have large populations. Moreover, in both countries levels of consumption per capita in most primary commodities are low, while income elasticities of demand for most primary commodities are high. This burgeoning demand almost certainly raised prices of primary commodities in world markets and thereby improved the terms of trade for developing countries. It benefited Brazil and South Africa as exporters of primary commodities, while the associated revival of growth in Brazil and South Africa reinforced this process.

Apart from the terms-of-trade effect in primary commodities, which might have come to an end, perhaps temporarily, China already is, while India and Brazil are likely to become, sources of manufactured goods in the world market. Such manufactures, particularly wage goods but also capital goods, from China, India and Brazil are likely to be cheaper than competing goods from industrialised countries. At the same time Brazil and South Africa could provide cheaper natural resource-based manufactures. This would also improve the terms of trade for developing countries.

The positive impact of BRICS on developing countries through the other potential channels of transmission is not as clear. We do not yet have either the evidence or the experience. In principle, it is possible that the BRICS may develop technologies that are more appropriate for the factor endowments and the economic needs of developing countries. For example, the technology that transformed Savannah lands in Brazil for agricultural use would be most

appropriate in Africa. Similarly there are technologies developed in India (pharmaceuticals) and in China (mining and railways) that would be appropriate for other developing countries. But it is too early to come to a judgment on this matter. The BRICS are also potential sources of finance for development. Their foreign aid programmes, particularly in Africa, constitute a modest beginning, although the implications and consequences of aid from China and India for African economic development are not necessarily positive.[23] The experience in terms of foreign direct investment is limited so far. Nevertheless, the evidence available suggests that it is not significantly different from the experience with large international firms from industrialised countries.

The emergence of BRICS in the world economy could also have a negative impact on developing countries if these economies provide developing countries with competition in markets for exports or as destinations for investment.

At this juncture China is clearly the largest supplier of labour-intensive manufactured goods in the world market. Even if not as large as China, India is also a significant supplier of labour-intensive manufactured goods. Brazil and South Africa are important suppliers of natural resource-based manufactures. China, India and Brazil are emerging suppliers of capital goods. There can be little doubt that manufactured exports from BRICS span almost the entire range of manufactured exports in which other developing countries could have a potential comparative advantage. Hence, it is plausible to argue, though impossible to prove, that, on balance, BRICS possibly have a negative impact on manufactured exports from other developing countries which have to compete with these four economies for export markets in industrialised countries.[24] This could change if and when China and India vacate their space in the international trade matrix, in much the same way as latecomers to industrialisation in Asia, such as Japan, Korea, Hong Kong, Taiwan and Singapore, vacated their space in the market for simple labour-intensive manufactures from countries that followed in their footsteps. This is not likely, at least in the medium term, because both China and India have large reservoirs of surplus labour at low wages not only in the rural hinterlands but also in the urban informal sectors. Brazil and South Africa may not have such large reservoirs of surplus labour but, given their abundance in primary commodities and natural resources, it is not likely that they will vacate their space in the market for processed products or resource-based manufactures for other developing countries that have similar endowments from nature.

BRICS absorb a significant proportion of inward foreign direct investment in developing countries both in terms of stocks and flows. Given that China, India and Brazil are now among the most attractive destinations for transnational firms seeking to locate production in the developing world, it is once again plausible to suggest, though impossible to prove, that foreign direct investment in China, India and Brazil might be at the expense of developing countries. South Africa may not have the same attraction as a destination, but it may draw foreign direct investment that could have gone to developing countries in Africa. At the same time the share of BRICS in outward foreign direct investment in the world economy, as also from developing countries, is modest in both stocks and flows, so that firms from these four countries do not compensate with foreign direct investment in other developing countries.

The less discernible but more significant negative impacts of BRICS, particularly China, on developing countries are the implicit barriers to change in the traditional division of labour and specialisation in production. For one, China already does and India might pre-empt opportunities for other developing countries to industrialise through exports of labour-intensive manufactures, which is attributable to their surplus labour and low wages, something

that might continue for some time to come. For another, Brazil and South Africa might pre-empt opportunities for other developing countries to industrialise through agro-based or resource-intensive manufactures, which is attributable to their abundance in primary commodities and natural resources. But this is no more than a plausible hypothesis about possible future developments which cannot be tested.

The problem has, however, surfaced clearly in one dimension. China's present division of labour with the developing world, reflected in the composition of trade flows, is not different from the old North–South pattern of trade, in so far as Chinese imports from the developing world comprise largely primary commodities, while Chinese exports to the developing world are largely manufactured goods.[25] China's trade with countries in Southeast Asia is the exception to this rule. But Chinese trade with, and investment in, Africa conforms even more closely to this caricature neo-colonial pattern. Such traditional patterns of trade, it should be recognised can neither transform the structure of production in developing countries nor make for a new international division of labour. Indeed, such trade can only perpetuate the dependence of developing countries on exports of primary commodities without creating possibilities for increasing value added before export or entering into manufacturing activities characterised by economies of scale. Such path-dependent specialisation can only curb the possibilities of structural transformation in developing countries. Trade with China can sustain growth and support industrialisation in developing countries only if there is a successful transition from a complementary to a competitive pattern of trade, so that inter-sectoral trade is gradually replaced by intra-sectoral or intra-industry trade and specialisation.

Global governance

It is essential to recognise that the importance of BRICS in the world will be shaped not only in the sphere of economics but also in the realm of politics. Their emerging significance in the world economy is attributable in part to their share in world population and in world income and in part to their engagement with the world through international trade, international investment and international migration. Even so, in the economic sphere their potential importance in future far exceeds their actual importance at present. In the realm of politics, however, their importance is more discernible at the present juncture, something which is attributable in part to their size and in part to their rise.

It is plausible to argue, though impossible to prove, that this represents the beginnings of a profound change in the balance of economic and political power in the world.[26] History does not repeat itself. But it would be wise to learn from history. The early 20th century was a turning point. It was the beginning of the end of Britain's dominance in the world. And it was the beginning of the rise of the USA to dominance in the world. The catch-up and the transformation spanned half a century. The early 21st century perhaps represents a similar turning point. It could be the beginning of the end of the dominant status of the USA in the world. The emergence of countries outside North America and Western Europe, particularly the powerhouse economies in Asia, now visible in the rise of China and discernible in the unrealised potential of India, represents a striking transformation. In addition, there are such countries in other continents of the developing world.[27]

The process of catching up underlying this transformation has been led by a group of countries that I have described as the Next-14. BRICS are part of this larger group. Indeed,

it is plausible to suggest, even if impossible to establish with precise criteria, that there are other developing countries which could follow in the footsteps of the Next-14. This group might be made up of Iran, the Philippines and Vietnam in Asia; Nigeria and Tunisia in Africa; and Colombia and Costa Rica in Latin America. Even among Least Developed Countries there are three – Bangladesh, Ethiopia and Tanzania – that have some potential.[28] Of course, in the decades to come the continued rise of the Next-14 or the emergence of others is not quite predictable and by no means certain. This catch-up and transformation could also span half a century or longer. Nevertheless, the beginnings of a shift in the balance of power from the industrialised world to the developing world are discernible.

BRICS as a formation began life on stepping-stones of bilateralism and building-blocks of plurilateralism to influence the international politics of nation-states. Brazil, India, China and South Africa have all engaged in a bilateralism that is both intra-regional and inter-regional. There are intra-regional initiatives led by China and India in Asia, by Brazil in Latin America and by South Africa in Africa. There are also some inter-regional initiatives on the part of these countries, such as China taking a lead in forging the Asia-Pacific Economic Cooperation (APEC) forum and India seeking a partnership with the Association of Southeast Asian Nations (ASEAN). Similarly BRICS have also been engaged in some plurilateralism. There are three important examples. First, in 2005 Brazil, India, China and South Africa, together with Mexico, constituted the Outreach-5, who were invited to the G8 Summit even before the global economic crisis. There was a hint of discontent about their status as observers, peripheral to deliberations and decisions, so that the Outreach-5 always sought a place at the high table with the G8. This exclusion came to an end with the financial crisis, when the G20, which replaced the G8 in its role, included all of them and most of the Next-14. Second, in 2006 India, Brazil and South Africa constituted a plurilateral group, IBSA, attempting to develop a strategic alliance that would foster partnership among them, promote cooperation with developing countries and articulate a collective voice in international politics. Third, in 2009 Brazil, India, China and South Africa came together as BASIC at the Summit on Climate Change in Copenhagen, which was an *ad hoc* coalition shaped by the event.

From the perspective of the developing world the BRICS, together, may be able to exercise significant influence through multilateralism, whether institutions or rules, in the global context.[29] The United Nations, the World Bank, the IMF and the World Trade Organization (WTO) are among the most important multilateral institutions.

In the UN China alone is a permanent member of the Security Council with a right to veto. And it is also a member of the P5. But India and Brazil are knocking at the door, seeking permanent membership of the Security Council, with or without a veto. South Africa is also a potential candidate but there are competing claims from Africa. There can be little doubt that, if and when there is an increase in the number of permanent members of the Security Council in the UN, these three countries would have the strongest claim to permanent membership among aspirants from the developing world.

In the Bretton Woods institutions – the World Bank and the IMF – China, India, Brazil and South Africa are permanent members of the Executive Boards. The industrialised countries may be the principal shareholders but the developing countries are the principal stakeholders. Given the democratic deficit in these institutions, which is embedded in unequal voting rights, BRICS together could influence decisions or even reshape rules. So far, however, there is limited, if any, coordination among BRICS for this purpose. They have neither articulated collective voice nor exercised collective influence. There are two striking examples. They

failed to act in cohesion when the president of the World Bank was appointed in 2012, although there were two strong candidates from the developing world. Soon thereafter, as the BRICS infused large doses of finance into the IMF, they simply did not negotiate any changes in its rules, which reduce policy space for borrowing developing countries, let alone attempt to reduce the democratic deficit.

The situation in the WTO is different. India and Brazil have been long-standing advocates of developing countries in the WTO. China has a low profile, possibly because of its more recent accession. South Africa is now a part of the strategic alliance among developing countries, which it was not earlier. India and Brazil, along with the USA and the EU, have become members of the *Quad*, which is the principal institutional mechanism for resolving differences and finding solutions. Ironically enough, the appointment of a director general in the WTO from Brazil seems to have ruptured the long-standing solidarity of India and Brazil.

In sum, it would seem that the BRICS have a considerable potential for articulating a collective voice in the world of multilateralism. Coordination and cooperation among them carries significant potential for exercising influence on multilateral institutions, which could reshape rules and create policy space for countries that are latecomers to development. Such coordination and cooperation, which is in the realm of the possible, has not yet surfaced. There could be two reasons for the paucity of coordination and cooperation so far.[30] For one, in the early stages of change, setting aside conflicts of interest, or recognising common causes, is easier said than done. For another, their relationship with each other may be characterised more by rivalry, economic or political, and less by unity.

It is obviously difficult to predict how reality might unfold in times to come. Even so, it is important to recognise that once these countries become major players, there is a danger that they might opt for the pursuit of national interest rather than for the spirit of solidarity among developing countries or the logic of collective action. Therefore, the spirit of solidarity among developing countries must be preserved and nurtured. In this quest, the approach of BRICS must be cooperation among themselves and solidarity with others through consultation and inclusion. In such a mode BRICS can be far more influential in a world where the changing balance of economic and political power is beginning to chip away at the hegemony of the rich industrialised countries.

At the conclusion of the BRICS Summit in Brazil in July 2014 the Fortaleza Declaration announced the creation of a New Development Bank. Beginnings are always difficult. Hence, this is an important first step in the right direction. It is, of course, too early for any meaningful evaluation of this new initiative. Even so, some things can be said.

It is cause for cheer because this is the first tangible act of real cooperation and collective action on the part of BRICS, despite some potential conflicts and genuine concerns. It could be cause for celebration if it evolves into an international institution that provides poor countries with finance for development, as partners, on terms that are better than and different from the terms of the World Bank and the IMF. It could then be a genuine alternative and not simply a substitute or a complement. This competition might even lead to change for the better in the Bretton Woods twins.

Yet wisdom lies in careful reflection and realistic assessment of unfolding outcomes. The baby is born. But it is an infant. It remains to be seen how it grows from infancy through childhood to adulthood. The formative years will be critical. In the early stages it is essential for BRICS to sustain their solidarity of purpose to preserve equality among the founding countries, the lenders, and nurture partnership with the countries to whom the Development

Bank provides resources, the borrowers, so that its structures and methods of governance remain democratic. There is a clear and present danger that it might evolve in much the same way as the World Bank, with a democratic deficit and as a window of financial assistance based on patronage and conditions.

In my view it would be wise to moderate the enthusiasm of the advocates and dampen the scepticism of the critics about the BRICS Development Bank that is in the process of being established. It is the only way forward that could avert the dangers and help create an international institution for financing development in a spirit of partnership among equals rather than patronage among unequal partners. The obvious conclusion that can be drawn is that its success or failure as an institution will perhaps be the most important litmus test for BRICS in terms of their willingness and ability to contribute to development elsewhere and improve global governance.

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Notes

1. UNCTAD Stat (unctad.org/en/Pages/Statitstics/aspx) based on United Nations, National Accounts Statistics and Population Statistics.
2. See O'Neill, et al., *Growth and Development*.
3. For a discussion on the limitations of this exercise, see Rowthorn, "The Renaissance of China and India"; and Nayyar, "The Rise of China and India."
4. In 2013 GDP per capita in US dollars at current prices and market exchange rates was $15,011 in Russia, compared with $11,232 in Brazil, $1537 in India, $6726 in China, and $6679 in South Africa. United Nations, UNCTAD Stat, based on UN National Accounts Statistics.
5. The discussion that follows in this section, and the supporting evidence that is cited, both draw upon recent work by the author. See Nayyar, *Catch Up*.
6. Developing countries are made up of those in Africa, Asia excluding Japan, and Latin America including the Caribbean. Industrialised countries are made of those in North America, Western Europe, Japan, Australia and New Zealand. Eastern Europe and the former USSR are a separate country group in this classification.

7. Maddison, *The World Economy*; Nayyar, *Catch Up*; and Maddison Online Database, http://www.ggdc.net.MADDISON/oriindex.htm.
8. Calculated from United Nations, National Accounts Statistics and Population Statistics.
9. For a detailed discussion, and evidence, on growth rates of GDP and GDP per capita in the two country groups over time, see Nayyar, *Catch Up*.
10. Cf. Nayyar, *Catch Up*.
11. The evidence cited in this paragraph draws upon Nayyar, *Catch Up*.
12. The idea and conception of the Next-14 comes from earlier work by the author. See Nayyar, *Catch Up*.
13. During the period from 1000 to 1700 China and India, taken together, accounted for 50% of world income and 50% of world population. Maddison, *The World Economy*; and Nayyar, *Catch Up*. These proportions were roughly the same in 1820 (Table 1).
14. For a detailed discussion on the issues outlined briefly in this paragraph, see Nayyar, *Catch Up*.
15. If BRICS and the Next-14 are at the top in the catching-up process for the developing world, the Least Developed Countries (LDCs), which are falling behind, almost excluded from the process, are at the bottom. It would be too much of a digression to enter into a discussion on this here. Suffice it to say that catch-up has been associated with growing divergences within the developing world. For an analysis and discussion of the issue, see Nayyar, *Catch Up*. For evidence on the economic performance of LDCs, see UNCTAD, *The Least Developed Countries 2011 Report*.
16. It is worth noting that, between 1990 and 2013, the share of developing countries in world GDP rose from 17.5% to 36.9%, ie by almost 20 percentage points, entirely at the expense of industrialised countries, as their share in world GDP fell from 77.5% percent to 57.4%. This is attributable largely to the much higher share of developing countries in 1980 on account of the sharp increase in oil prices that bumped up the GDP of oil-exporting developing countries.
17. The evidence on growth rates in GDP and GDP per capita cited in this paragraph draws upon Nayyar, "BRICS, Emerging Markets and the World Economy." For a more detailed analysis of outcomes and the underlying factors, see Nayyar, *Catch Up*.
18. The figures cited in this paragraph are from Nayyar, "Emerging Markets and the World Economy." For a discussion, see also Nayyar, *Catch Up*.
19. The evidence cited in this paragraph, on the significance of BRICS in the world economy and the importance of China in BRICS, draws upon Nayyar, "BRICS, Emerging Markets and the World Economy."
20. For an analysis of the impact of the financial crisis and the Great Recession on the developing world, in comparison with its impact on industrialised countries, see Nayyar, "The Financial Crisis."
21. These possibilities are analysed in Nayyar, "China, India, Brazil and South Africa." The discussion that follows in this section draws upon this earlier work by the author.
22. This proposition is emphasised by Kaplinsky, "Asian Drivers"; Singh, *Globalization*; Rowthorn, "The Renaissance of China and India"; and Nayyar, "The Rise of China and India."
23. See Toye, "China's Impact on Sub-Saharan African Development"; Cheru and Obi, *The Rise of China and India*; and Nayyar, "The Emerging Asian Giants."
24. Kaplinsky and Morris show that China's emergence as a large exporter of manufactured goods in the world economy poses severe problems for export-oriented growth in sub-Saharan Africa, particularly in textiles and clothing. Kaplinsky and Morris, "Do the Asian Drivers undermine Export-oriented Industrialization?"
25. See IADB, *The Emergence of China*; United Nations, *Diverging Growth and Development*; Jenkins et al., "The Impact of China"; and Nayyar, "The Emerging Asian Giants."
26. This argument is developed, at some length, elsewhere in Nayyar, *Catch Up*.
27. For a detailed discussion, with evidence and analysis, see Nayyar, *Catch Up*. This process was discernible even earlier, at the turn of the century, and was described as 'The Rise of The Rest'. Amsden, *The Rise of the Rest*.
28. This list of countries is at best suggestive and by no means definitive. It might change as circumstances change or reality unfolds. Amsden and Nayyar have also speculated about

countries that might constitute the next generation – 'The Rest', or the 'Following-10', respectively – with some differences between them. The listing above is similar but not the same. See Amsden, *The Rise of the Rest*; and Nayyar, *Catch Up*.

29. This hypothesis and its possibilities are discussed at length elsewhere by the author. Nayyar, "The Existing System"; and Nayyar, "China, India, Brazil and South Africa." For an overview of how the rising powers of the global South might be challenging the existing framework and institutions of global governance, see Gray and Murphy, "Rising Powers."
30. Thakur explores the potential of BRICS to represent the global South and argues that it remains unclear whether BRICS can morph from a countervailing economic grouping to a powerful political alternative. Thakur, "How Representative are BRICS?"

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